

The Wellington Destructor, 677 Wellington Street West - Head Lessee and Long Term Lease

Date: October 5, 2021

To: General Government and Licensing Committee

From: Executive Director, Corporate Real Estate Management and Chief Executive Officer, CreateTO

Wards: Ward 10 - Spadina-Fort York

SUMMARY

The purpose of this report is to seek approval from City Council on the project proposal (the "Project Proposal") put forth by the recommended head lessee, TAS Tecumseth Niagara LP ("the Head Lessee", "TAS"), and to authorize the Executive Director, Corporate Real Estate Management to enter into a long term lease (the "Lease") with TAS and to administer and manage the Lease for the Wellington Destructor property at 677 Wellington Street West ("the Property"), based on the terms and conditions recommended by the CreateTO Board, subject to obtaining City Council approval, by adoption of Item RA24.10 at its meeting of September 13, 2021 ("the CreateTO Board Report"), as set out in the CreateTO Board Report's Revised Confidential Attachment 2. This report also seeks authority to apply for funding from other levels of government and from private sources, and to enter into and execute required agreements.

The Property presents an opportunity for the adaptive reuse of an existing City-owned heritage building as a cultural and community hub, with employment and commercial uses to generate new income, as well as to complement and support the existing and proposed employment uses of the surrounding area.

At its meeting on April 24, 25, 26 and 27, 2018, City Council authorized the Deputy City Manager, Internal Corporate Services (now Corporate Services) to develop and undertake a call process to seek and secure a head lessee for a long-term lease of the Wellington Destructor, and to report back to City Council on the results of the call process with a final recommendation for the selected head lessee. In 2019, Corporate Real Estate Management ("C.R.E.M.") completed the call process, including the evaluation of proposals. As directed by City Council, CreateTO negotiated a term sheet with the proposed Head Lessee, which outlines the basic terms of the Lease and ongoing management of the Property.

Pending City Council approval of the recommendations in this report, and subject to the approval of the City's capital funding contribution to the Project Proposal to be brought The Wellington Destructor - Head Lessee and Long Term Lease

forward in the 2022 Budget process, City and CreateTO staff will complete the negotiations of the Lease and will work with the Head Lessee to develop a community engagement strategy, in consultation with the local Councillor.

RECOMMENDATIONS

The Executive Director, Corporate Real Estate Management and the Chief Executive Officer, CreateTO recommend that:

1. City Council approve the recommended Head Lessee proponent, TAS, and their Project Proposal for the design, construction, leasing and management responsibilities in connection with the reuse of the Wellington Destructor property at 677 Wellington Street West.
2. City Council authorize the Executive Director, Corporate Real Estate Management to enter into a long-term lease with TAS Tecumseth Niagara LP, conditional upon declaration that the 677 Wellington Street West property is surplus to the City's needs and conditional upon capital funding approval through the 2022 budget process, substantially on the major terms and conditions set out in the Revised Confidential Attachment 2 of the CreateTO Board Report, and on such other or amended terms and conditions including funding and financial conditions acceptable to the Executive Director, Corporate Real Estate Management, or their designate, and in a form satisfactory to the City Solicitor.
3. City Council authorize the Executive Director, Corporate Real Estate Management, or their designate, to administer and manage the Lease including the provision of any amendments, consents, approvals, waivers, notices, and notices of termination, provided that the Executive Director, Corporate Real Estate Management may, at any time, refer consideration of such matters, including their content, to City Council for its determination and direction.
4. City Council authorize the City Manager and/or any other relevant City Official, in consultation with the Chief Financial Officer and Treasurer, to apply for and receive funding, and negotiate, enter into and execute any agreements required in respect of such funding for the Wellington Destructor project, including any amendments and extensions thereto, with the Government of Canada, the Province of Ontario and their respective agencies, and/or non-government sources, in a form satisfactory to the City Solicitor.
5. City Council authorize the public release of the Confidential Attachment 1 and the Revised Confidential Attachment 2 to the CreateTO Board Report following the execution of the Lease by the Head Lessee and the City.

FINANCIAL IMPACT

A Building Condition Assessment was undertaken in 2018 to identify the scope of repairs required to bring the Wellington Destructor building to a base building condition, to meet the current Ontario Building Code standards, and to maintain its heritage significance. A Class D cost estimate for this work, in addition to the cost of environmental remediation of the Property, is valued at \$32.0 million.

As part of the Lease, it is contemplated that the City would contribute the capital funds required for the Head Lessee to remediate the Property and to retain and restore the Property's existing heritage structure to base building condition, at a cost of up to \$32.0 million. All capital costs in excess of this amount are to be incurred by the Head Lessee.

During the term of the lease, the City would not be responsible for any other capital or operating costs. The Head Lessee will be responsible for the development, maintenance and operation of the property and bear all costs associated with the administration, real property taxes, capital repair and replacement of the Property.

The \$32.0 million construction cost is currently not included in the approved 2021-2030 Capital Budget and Plan for C.R.E.M. Should the recommendations within this report be approved, the request for \$32.0 million will be included as part of the 2022 Budget process for Council consideration. Funding would be required over the detailed design and construction period starting in 2023 to 2025.

Partial funding for architectural and environmental consulting services totalling \$0.315 million is included in the approved 2021-2030 Capital Budget and Plan for C.R.E.M. with cash flow in 2021, as shown in Table 1.

Table 1 Wellington Destructor Budget, Approved Funding & Capital Needs Constraints

Year	Approved Budget (million)	Capital Needs Constraints (million)	Total
2021	\$0.315	\$0.000	\$0.315
2022	\$0.000	\$0.000	\$0.000
2023	\$0.000	\$16.000	\$16.000
2024	\$0.000	\$15.000	\$15.000
2025	\$0.000	\$1.000	\$1.000
Total	\$0.315	\$32.000	\$32.315

Financial Strategy

Pending City Council approval, the City will make a maximum contribution to the Head Lessee of \$32.0 million, to be used for environmental remediation and to retain and

restore the Property's existing heritage structure to base building condition. The Head Lessee will repay the City's capital contribution over the term of the Lease through guaranteed annual payments, in addition to participation payments, providing a mechanism to allow the City to participate in future income growth, described further in the CreateTO Board Report's Confidential Attachment 1 and Revised Confidential Attachment 2.

While the overall cost of the development is estimated at \$99.0 million, the balance of the capital costs after the City's capital contribution of \$32.0 million would be incurred by the Head Lessee. This capital contribution would be an upfront investment into a city-building project that involves the reuse and rehabilitation of a vacant, City-owned heritage building into a community and cultural hub in a neighbourhood undergoing intensification.

External Partnerships and Funding Sources

This report also recommends that City staff apply for capital funding for the Project Proposal under various government and/or private sector funding programs, where eligibility requirements are met, to help offset the City's overall capital contribution to the Head Lessee. Should applications for capital funding be successful, the City's total capital contribution to the project would be reduced by the amount secured.

The Chief Financial Officer and Treasurer has been provided the financial impacts associated with this program for review as part of the 2022 budget process.

DECISION HISTORY

At its meeting on September 13, 2021, the Board of Directors of CreateTO recommended that City Council approve the recommended Head Lessee proponent named in the confidential attachment to the report "The Wellington Destructor - 677 Wellington Street West" for a long term ground lease of the property, subject to the necessary City of Toronto approvals and on terms and conditions acceptable to the City Solicitor.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2021.RA24.10>

At its meeting on July 4, 2018, Toronto and East York Community Council adopted TE34.94 "The Wellington Destructor, 677 Wellington Street West - City-Initiated Zoning Amendment - Preliminary Report" and directed staff to schedule and provide notice for a community consultation meeting with the Ward Councillor to present the proposal for the lands at 677 Wellington Street West to the public and obtain public input.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2018.TE34.94>

At its meeting on April 24, 25, 26 and 27, 2018, City Council adopted GM26.2 "Wellington Destructor: Adaptive Reuse Strategy," and authorized the Deputy City Manager, Internal Corporate Services to commence necessary work with Brookfield Financial to develop and undertake a call process to seek and secure a Head Lessee

for a long-term lease of the Wellington Destructor, and to report back to City Council in 2019 on the results of the call process with final recommendations.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2018.GM26.2>

At its meeting on August 25, 26, 27, and 28, 2014, City Council adopted OPA 273 to implement the recommendations of the South Niagara Planning Strategy, with respect to the City's vision for the South Niagara area. OPA 273 re-designates lands from Regeneration Areas to Mixed Use Areas, Neighbourhoods and Parks and Open Space Areas.

<https://www.toronto.ca/legdocs/mmis/2014/pg/bgrd/backgroundfile-71922.pdf>

COMMENTS

Background

The Wellington Destructor is a 0.85 hectare City-owned property (the "Property") that includes a 3,700 square metre vacant heritage building constructed in 1925, which was originally used as a garbage incinerator. It remained in active use until the incineration of solid waste was halted in the mid-1970s. The building was adapted to be used as a transfer station until 1986, at which time it was decommissioned. The building has been vacant since.

The Wellington Destructor building is architecturally significant as a surviving example of an early 20th century industrial structure designed with elements of Modern Classicism. The Property was listed on the City of Toronto Heritage Register in June 2005 by City Council, and is subject to policies for its conservation.

In 2013, the Property was transferred to the Real Estate Services Division (now C.R.E.M.), at which time, the building was deemed to be unsafe due to extensive structural repairs required and health and safety concerns. Work was undertaken in 2016 to secure and mothball the site to protect the building until such time as permanent and appropriate uses have been determined.

At its meeting on August 25, 26, 27, and 28, 2014, City Council adopted Official Plan Amendment 273 ("O.P.A. 273") to implement the recommendations of the South Niagara Planning Strategy, which details the City's vision for the South Niagara area. The recommendations included direction for City staff to study the adaptive reuse opportunities of the Wellington Destructor for cultural and community space, community hub or other appropriate uses.

In 2017, the Property was reviewed for 'declaration of surplus' status. No interest was expressed from any City divisions, agencies, boards or corporations. Following that, the Real Estate Services Division, in partnership with City Planning and Economic Development & Culture, undertook an engagement process, including a public meeting and online survey, to solicit feedback on potential new uses and vision for the building.

Participants said they would most like to see arts and culture, recreation and leisure, and community and social services functions. Some suggested single, specific uses within these categories, but many provided combinations of two or more uses within these categories. While there was concern about a single commercial use, such as a pub, craft brewery, office space or speciality retail, there was support if these uses were part of a mix of uses in the building.

At its meeting on April 24, 25, 26 and 27, 2018, City Council authorized the Deputy City Manager, Internal Corporate Services (now Corporate Services) to develop and undertake a call process to seek and secure a head lessee for a long term lease of the Wellington Destructor, and to engage with CreateTO in the development of the commercial terms related to the proposed head lease agreement and ongoing property management of the building.

Head Lessee Process

Brookfield Financial Real Estate Group ("B.F.I.N."), was retained by C.R.E.M. in 2018 to develop and undertake the two-stage call process on the City's behalf, which included a Request for Qualifications ("R.F.Q.") and Request for Proposals ("R.F.P."). Through the call process, the City sought creative proposals for the adaptive reuse and tenancing of the heritage-listed building. Primary objectives and guidelines for the project were developed by City staff, based on feedback from the community and the local Councillor and based on the directions from the South Niagara Planning Strategy.

Four proposals were received through the R.F.Q. process. Following review and evaluation of the proposals based on the criteria set out in the R.F.Q., two proponents were shortlisted and invited to participate in the second stage R.F.P. process.

Through the R.F.P. process, proponents were asked to demonstrate how they expect to meet the adaptive reuse objectives of the Wellington Destructor through a distinctive design concept, sustainable site and building design, and a deliberate mix of uses or tenants that successfully combines community or public uses and open spaces with complementary commercial uses. These commercial uses are expected to offset the costs of any rent subsidies required for community or public uses. Proponents were also required to show the ongoing financial sustainability of the project by demonstrating how the City's capital contribution of up to \$32.0 million would be repaid over the lease term; how their proposal maximizes the financial return to the City in keeping with the overall vision of community uses; and, how the City will earn a percentage rent or alternative mechanism, subject to a minimum profitability hurdle rate. Proponents were also required to provide a development budget and to propose a financial structure for the development.

Recommended Head Lessee

Proposals were extensively reviewed and evaluated by an interdivisional staff team and monitored by B.F.I.N., based on criteria described in the R.F.P. Following this evaluation, staff recommend securing TAS, as the Head Lessee. CreateTO staff have been negotiating the major terms of a ground lease agreement with TAS, on behalf of

C.R.E.M., and are summarized in the Revised Confidential Attachment 2 of the CreateTO Board Report.

A subsidiary of MAVI Developments Incorporated, TAS, is a privately owned, Toronto-based mixed use real estate development company, with over 50 staff members, focused on the development and operation of residential and mixed-use buildings. TAS has completed several major developments with a combined value of over \$300.0 million, and currently has approximately 500,000 square metres under development with a market value of \$3.0 billion.

Head Lessee Proposal for the Wellington Destructor

The selected project proposal (the "Project Proposal") by TAS provides the highest financial returns to the City and includes an innovative vision for the conservation of the heritage Wellington Destructor building as well as construction of a new low rise pavilion fronting along Wellington Street. All new uses within the property will fall within the following three programmatic categories: education, creation and innovation. The vision for the re-use of the Wellington Destructor is compatible with the planning framework of the surrounding neighbourhood.

The Project Proposal includes a variety of community, non-profit, commercial and light industrial uses, and a diverse range of tenancies and programming partners that balance affordability and public access with commercial returns.

The unique physical characteristics of the historic Wellington Destructor and its landscape's history will be acknowledged and interpreted to create a set of flexible spaces focused on providing new gathering areas for neighbourhood residents.

A new pavilion building is proposed to front the Property along Wellington Street West, and will host complimentary commercial tenancies including retail/café/restaurant and atelier-style office spaces for creative and technology industries. There are two below-ground levels: the first level includes a proposed neighbourhood energy system and the second level will house light industrial space.

The Project Proposal will include sustainable technologies, high performance landscape design and building envelopes, pavilion green roof, and photovoltaic panels on the Wellington Destructor building.

Conclusion

Pending City Council approval of the recommendations in this report, a request to approve the City's capital funding contribution to the Project Proposal will be brought forward as part of the 2022 Budget process. If approved, City and CreateTO staff will complete the negotiations and execute the Lease with the Head Lessee. Following this milestone, City and CreateTO staff will work with the Head Lessee to develop a community engagement strategy, in consultation with the local Councillor.

The Project Proposal recommends the conservation of a vacant, City-owned heritage building, as a community hub for new culture, education, and innovation uses. Building
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on the success of other adaptively reused City-owned heritage properties, including Artscape Wychwood Barns and Evergreen Brickworks, the Project Proposal would be a valuable community asset providing event and community space at both market and below market rates for underserved groups. It is anticipated to generate employment and economic development opportunities, as well as to attract visitors from across the city and beyond.

The Project Proposal is also consistent with the objective of laying the foundation for Toronto's social and economic recovery as outlined in EX17.1 "Towards Recovery and Building a Renewed Toronto". It supports the recommended actions of the report by investing in people and neighbourhoods, tackling climate change, supporting economic recovery, and supporting financial sustainability.

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